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SUBJECT: BURKINA FASO'S POVERTY INCREASED IN 2007, MAY INCREASE
FURTHER IN 2008, BUT SHOULD DECREASE OVER LONGER TERM

OUAGADOUGO 00000420 001.2 OF 004

Reftels: A) Ouagadougou 202; B) Ouagadougou 221
C) Ouagadougou 020; D) Ouagadougou 235;
E) Ouagadougou 396

1. Key Points:

- Despite numerous poverty reduction programs, the incidence of poverty in Burkina Faso rose from 42.1 percent in 2006 to 42.6 percent in 2007, April 3 consultations between the host government and donors revealed.
- Burkina Faso was unable to reach its poverty goal of a 39.2 percent incidence rate in 2007 because of higher inflation and slower growth.
- Although the inflation rate was a negative 0.3 percent through the first half of 2007, a dramatic rise in world oil and food prices caused Burkina Faso's Consumer Price Index (CPI) to soar in the second half of the year, from 118.6 in July 2007 to 122.6 by the end of December (ref A).
- Before 2007, a relatively rapid GDP growth rate (e.g. 7.1 percent in 2005, and 6.4 percent in 2006) had steadily lowered the incidence of poverty from 46.2 percent in 2003 to 42.1 percent in 2006. GDP growth slowed, however, to 4.2 percent rate in 2007.

2. Key Judgments:

- Growth in the Burkinabe economy averaged about 6 percent per year for the 10 years ending 2006. One 2006 article in the "Journal of African Economics" estimated that poverty in Burkina Faso significantly decreased between 1994 and 2003, but actually increased during the initial period of 1994 and 1998 because of a severe drought and the devaluation of the CFA franc, which led to a profound deterioration in the purchasing power of the poor. Unfortunately, mid-2007 marked another negative turning point for the purchasing power of Burkina Faso's poor.
- Anecdotal evidence strongly suggests that the CPI again rose sharply in the first quarter of 2008, with large increases in prices

for basic food commodities such as rice and bread, as well as a continued ripple effect through the economy of higher oil prices (leading to higher import costs into landlocked Burkina Faso, as well as higher domestic electricity and transport costs). We believe that that, barring strong harvests of cotton and grains this year, Burkina Faso's poor will face another decline in purchasing power in 2008.

-- Annual population growth from 2000-2006 averaged about 3.0 percent, and was likely about this figure in 2007 as well. Since real GDP growth was 4.2 percent in 2007, real per capita income grew about 1.2 percent in 2007. However, since the poverty incidence rate rose in 2007 to 42.6 percent, real income gains in 2007 accrued to the segment of the population above the poverty line.

-- Poverty in Burkina Faso continued to be an overwhelming rural phenomenon with a disproportionate number of poor living in rural areas (49.1 percent) compared to urban areas (16.6 percent). It is possible, however, that urban poverty could increase relatively faster than rural poverty in 2008 as the basket of goods consumed by the urban poor may include a higher component of costlier, imported products.

-- Increased urban poor may have already been a factor strengthening support in several cities in Burkina Faso for marches and protests in recent weeks against rising living costs (ref B and septel).

-- Exogenous, global factors are not alone responsible for Burkina Faso's struggling fight against poverty. Donors cited underutilization of available donor resources and, most importantly, corruption as fundamental issues jeopardizing success in this fight. Although Burkina Faso was able to raise 108 percent of the required funds for poverty reduction programs, lack of efficiency and poor planning resulted in expenditure of only 65.53 percent of the total 2007 budget.

OUAGADOUGO 00000420 002.2 OF 004

-- Longer term, however, there are reasons for renewed optimism about Burkina Faso's fight against poverty. GSP growth is expected to recover to 6.3 percent in 2009 in part due to a rebounding cotton sector.

-- Burkina Faso has also been investing in its future. It made significant strides during the 2006-07 school year to give boys and girls, particularly those living in rural areas, the means to complete their primary school education. The government continued heavy investment in health-related infrastructure and clinics. Burkina Faso also continued to made progress in improving its climate for new enterprises, and has had success in attractive foreign investment in the mining sector.

End Key Points and Key Judgments.

Poverty Reduction Lost Ground in 2007

13. On April 3, 2008, the Government of Burkina Faso (GOBF) met with domestic stakeholders and international donors to conduct the eighth update to its World Bank/IMF-supported Poverty Reduction Strategy Paper (PRSP). The goal of this meeting was to provide stakeholders with crucial updates on macroeconomic, structural, and social policies related to poverty reduction.

14. Many of the key statistics that the GOBF shared with donors were disheartening. Not only was Burkina Faso unable to reach its targeted incidence rate of 39.2 percent in 2007, the incidence of poverty in Burkina Faso actually rose from 42.1 percent in 2006 to 42.6 percent in 2007. Before 2007, a relatively rapid GDP growth rate (e.g. 7.1 percent in 2005, and 6.4 percent in 2006) had steadily lowered the incidence of poverty from 46.2 percent in 2003 to 42.1 percent in 2006. The 2007 economic slowdown to 4.2 percent GDP growth rate, however, was behind the rebound of the poverty rate. GDP growth slowed because of rising oil prices and a cotton sector crisis brought on in large part because of lower world cotton prices. GDP growth is expected to fall further to 4.0 percent in

2008, according to the IMF, which suggests that Burkina Faso's incidence of poverty may increase again in 2008.

15. Donors expressed concern that other poverty indicators had also increased in 2007, and suggested that the GOBF carefully assess the impact of current inflation on future poverty estimates. According to recent statistics, the depth of poverty indicator, which measures the mean aggregate income or consumption short-fall relative to the poverty line across the whole population, increased from 13.7 in 2006 to 13.9 in 2007. The poverty severity indicator, which takes into account not only the distance separating the poor from the poverty line but also the inequality among the poor, increased from 6.6 points in 2006 to 6.9 points in 2007.

Poor Execution of Poverty Programs, Corruption Impede Fight Against Poverty -----

16. The PRSP's 2007 implementation plan called for a budget of 465.7 billion CFA (US 1.09 billion). Although the GOBF was able to raise 503.9 billion CFA (US 1.19 billion), it only spent 65.53 percent of this amount. According to government official, funds were not allocated until the last quarter of 2007, leaving little time for plan execution.

17. According to donors, corruption continues to pose a significant threat to sustainable outcomes for poverty reduction and fiscal policy management in Burkina Faso. Representatives from Civil Society Organizations (CSOs) echoed donor concerns about corruption and criticized the GOBF for interfering in judicial and political processes. They pointed to several high profile cases where corrupt civil servants were simply dismissed from office without any further legal action.

18. Both Donors and CSO representatives praised newly passed legislation which merged three ineffective anti-corruption bodies

OUAGADOUGO 00000420 003.2 OF 004

into the Superior Authority of State Control (ASCE), a new, unified institution with some additional powers (ref C). They remained convinced, however, that only a strong political will at the highest level could reduce corruption. They urged the government to continue efforts to enhance accountability by granting greater access to crucial data, so that donors and CSOs could more effectively contribute to the PRSP review progress.

Three Other Areas of PRSP Implementation: Education, Health, and Enterprise Development -----

19. Despite the disappointing results for 2007 and uncertain prospects for 2008, there are reasons for renewed optimism about Burkina Faso's longer-term fight against poverty. GSP growth is expected to recover to 6.3 percent in 2009 in part due to a rebounding cotton sector. Most importantly, Burkina Faso - with the crucial help of the donor community - has been investing in its future. During the April 3 review of the PRSP, participants discussed four major areas which profoundly impact poverty in Burkina Faso. Besides economic growth (reflected in points above), the three other areas were:

-- Education: In July 2007, Burkina Faso passed a law to dramatically restructure its educational system over a 10-year period (ref D). The law includes a gradual implementation plan to enroll all children under the age of 16 in school free of charge. Thanks to this legislation, Burkina Faso made significant strides during the 2006-07 school year to give boys and girls, particularly those living in rural areas, the means to complete their primary school education. Statistics for 2007 show the gross enrollment ratio for primary education, which provides an overall view of the coverage of the education system, moved from 66.5 percent in 2006 to 72.6 percent in 2007. (The enrollment rate for girls was significantly less and improved relatively less, increasing from 61 percent in 2006 to 64.8 percent in 2007).

In the informal education sector, the overall literacy rate for the

population aged 15 years and older increased from 18.4 percent in 1998 to 28.3 percent in 2007. With 10 percent increase in nine years, it is unlikely that Burkina Faso will meet its Millennium Development Goal milestone of a 40 percent literacy rate by 2010. Donors commented that while the Government had improved access to basic education, they felt that educational quality had not improved. Many were also concerned over the implications of decentralization (ref E) on education and stressed the role of interdepartmental communication in improving access to basic education, while maintaining minimal quality standards.

-- Health: The government, with support from its partners, continued efforts to strengthen the nation's healthcare system through the development of health-related infrastructure and clinics. Donors congratulated the GOBF on the vaccination coverage rate against yellow fever (93.86 percent) and measles (93.86 percent) and the rate of assisted births (58.2 percent), but cautioned that other challenges still lay ahead. Attendees pointed to three major areas of concern: 1) 5.7 million Burkinabe have no access to clean water and 12.6 million lack adequate sanitation facilities; 2) the number of households located less than half an hour from a health center decreased from 39.5 percent in 2005 to 38 percent in 2007; 3) the nation's morbidity rate increased from 5.8 percent in 2003 to 8.4 percent in 2007. Donors criticized the GOBF for its complaints about lack of healthcare funding and its subsequent failure to fully utilize the financial resources at its disposal. Attendees also questioned why the Government had failed to furnish data on several important health indicators such as staffing levels and clinic locations.

-- Enterprise Development: Donors stressed the importance of increased private sector participation in economic development and urged the government to take appropriate measures to involve small and medium-sized enterprises in infrastructure implementation projects. Attendees pointed out that some progress had been made in improving the business climate in Burkina Faso, but urged the strengthening of strategic partnerships between public and private

OUAGADOUGO 00000420 004.2 OF 004

sectors. Private sector representatives voiced their concern over the skyrocketing cost of fuel and requested government initiated prices reductions. The private sector also added that business formalities still require further simplification, and echoed donor demand that the GOBF take decisive action in the fight against corruption.

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